

Message Text

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-----097749 161441Z /47

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FM AMEMBASSY WARSAW
TO SECSTATE WASHDC 5679
INFO AMEMBASSY BONN
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C O N F I D E N T I A L SECTION 1 OF 4 WARSAW 5111

EO 11652GDS
TAGS: EFIN, PL
SUBJ: MANAGEMENT OF THE POLISH DEBT: PROSPECTS ARE SOMEWHAT
BETTER FOR 1978/1979, BUT STILL GRIM FOR THE LONG TERM

REF: 77 WARSAW 5324

BEGIN SUMMARY. DESPITE SIGNIFICANT CUTS IN HARD-CURRENCY IMPORTS IN 1977, POLAND'S DEBT HAS CONTINUED TO MOUNT AND TO PLACE INCREASING STRAIN ON THE "HIGH-WIRE ACT" THE GOVERNMENT HAS BEEN PERFORMING TO AVOID OFFICIAL RESCHEDULING. WE BELIEVE, HOWEVER, THAT THE SEVERAL ELEMENTS NECESSARY FOR POLAND TO AVOID RESCHEDULING -- LIQUIDITY IN WESTERN (PARTICULARLY GERMAN) BANKS, CONTINUED BANKER CONFIDENCE IN POLAND'S ABILITY TO COPE, AND A GENERAL DESIRE BY WESTERN GOVERNMENTS AND THE SOVIETS TO HELP RESPOND TO POLISH NEEDS -- ARE WORKING IN POLAND'S FAVOR. THESE FORTUITOUS CIRCUMSTANCES SHOULD CARRY POLAND THROUGH 1978 AND PROBABLY FURTHER.

2. THE GOP WILL PROBABLY MAINTAIN ITS TIGHT CLAMP ON IMPORTS THROUGH THE SECOND QUARTER OF THIS YEAR (IMPORTS FROM OECD COUNTRIES WERE DOWN BY 25 PERCENT IN THE FIRST
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QUARTER). WE EXPECT THE POLES TO USE THIS RECENT TRACK RECORD, COUPLED WITH WIDER RELEASE OF INFORMATION ON ITS DEBT STRUCTURE, TO LAND A MAJOR FINANCIAL CREDIT FROM WESTERN BANKS DURING THE LATTER MONTHS OF 1978. WE THINK THEY WILL SUCCEED IN RAISING AT LEAST \$500 MILLION.

3. EVEN IF WARSAW IS ABLE TO AVOID RESCHEDULING THROUGH

1978/1979, THE DAY OF RECKONING IS PROBABLY ONLY BEING POSTPONED RATHER THAN AVOIDED. THIS MESSAGE ATTEMPTS TO ADDRESS POLAND'S FINANCING PROSPECTS AS WE SEEM THEM NOW. LONGER-TERM QUESTIONS REQUIRE SEPARATE ANALYSIS. END SUMMARY.

"STRETCHING" THE DEBT:

4. THE POLISH DEBT WAS AT LEAST \$12 BILLION AS OF YEAR-END 1977, AND ONE SOURCE (CHASE WORLD INFORMATION) HAS ESTIMATED IT AS HIGH AS \$13.9 BILLION. WE CAN EXPECT POLAND'S TWO-YEAR TRADE DEFICIT FOR 1978/1979 TO TOTAL \$3 BILLION, LEAVING A DEBT OF AT LEAST \$15 BILLION AS POLAND ENTERS THE 1980'S. THE \$15 BILLION FIGURE MAY SEEM HIGH, BUT, WE RECALL, IT IS ALSO THE DEBT LEVEL PREDICTED BY BANKERS ATTENDING THE JANUARY 1977, CONFERENCE SPONSORED BY USDOC IN WASHINGTON.

5. POLISH LEADERS STILL SEEM INTENT ON AVOIDING AN OFFICIAL RESCHEDULING. WITH THE WINDS OF DETENTE CHILLING OVER THE LAST FEW MONTHS, THEIR DETERMINATION TO AVOID SUCH A STEP, AND TO REMAIN IN THE GOOD GRACES OF THE SOVIETS, MUST BE INCREASING. IF THEY ARE SUCCESSFUL IN LANDING A MAJOR FINANCIAL CREDIT, SOMETHING THEY HAVE ALREADY BEEN EXPLORING WITH US AND OTHER BANKERS, THEY SHOULD BE ABLE TO GET THROUGH 1978, AND PROBABLY 1979.

6. THE GOP HAS PUSHED HARD OVER THE LAST YEAR TO LENGTHEN
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THE TERM STRUCTURE OF ITS DEBT. IT HAS BEEN SUCCESSFUL IN MANY WAYS, AND THERE IS STILL SOME GIVE LEFT IN THIS AREA. POLAND IS NOW RECEIVING TWO-OR THREE-YEAR CREDITS (MOSTLY FROM WESTERN GOVERNMENTS) FOR MOST OF ITS IMPORTS OF INDUSTRIAL CONSUMABLES -- STEEL, CHEMICALS AND TEXTILE FIBERS. BANK HANDLOWY ESTIMATES THAT SUCH CREDITS WILL COVER OVER \$1 BILLION IN IMPORTS IN 1978 AND AGAIN IN 1979. THESE PAYMENTS WERE FORMERLY MADE IN 30 TO 90 DAYS. WARSAW OFFICIALS HAVE ALSO DISCUSSED WITH THE FRENCH THE POSSIBILITY OF EXTENDING FOR 30 MONTHS THE GRACE PERIOD ON THE LARGE CREDIT FOR THE POLICE CHEMICAL PLANT DUE TO CONSTRUCTION DELAYS THERE. THE FRENCH ARE EXPECTED TO AGREE EARLY NEXT YEAR TO SOME DELAY, BUT FOR A SHORTER PERIOD THAN THE POLES ARE SEEKING. BRITISH EMBASSY OFFICERS IN WARSAW EXPECT TO RECEIVE A SIMILAR REQUEST FOR THE ECGD CREDIT FOR THE WROCLAWEK PVC PLANT, AND THEY BELIEVE THE ECGD WILL GO ALONG TO SOME EXTENT. A REPRESENTATIVE OF IRVING TRUST HAS ALSO TOLD US THAT BANK HANDLOWY IS PRESSING FOR "BALLOON PAYMENTS"

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 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
 CEA-01 AGRE-00 INT-05 DOE-15 SOE-02 /113 W
 -----097595 161442Z /47

R 161053Z JUN 78
FM AMEMBASSY WARSAW
TO SECSTATE WASHDC 5680
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AT THE END OF TWO YEARS, INSTEAD OF MONTHLY, ON AN EXTENSION
OF THE CREDIT LINE PROVIDED BY IRVING. HE THOUGH THAT
OTHER BANKS HAD RECEIVED SIMILAR REQUESTS. THE GOP'S
REQUEST FOR BALLOON PAYMENTS ON CCC CREDITS FITS
CLEARLY INTO THIS PATTERN.

THE FINANCIAL CREDIT

7. THERE ARE NATURAL LIMITS AS TO HOW FAR THE DEBT STRUC-
TURE CAN BE LENGTHENED WITHOUT A FINANCIAL CREDIT, HOWEVER,
AND THE SECOND HALF OF THIS YEAR MAY BE A PARTICULARLY GOOD
TIME FOR FLOAT SUCH A PROPOSITION WITH WESTERN BANKERS. THE
LIQUIDITY OF WESTERN BANKS IS THE KEY FACTOR GIVING HANDLOWY
MANEUVERING ROOM. ALTHOUGH MANY US BANKERS HAVE EXPRESSED
DOUBTS ABOUT POLAND'S ABILITY TO LAND A FINANCIAL CREDIT,
THEY INVARIABLY POINT OUT THE GREAT LIQUIDITY OF GERMAN BANKS.
THIS, COUPLED WITH THE PERCEIVED DESIRE OF THE FRG TO HELP
POLAND COPE, LEADS THEM TO BELIEVE THE GERMANS WOULD PROVIDE
THE BULK OF A FINANCIAL CREDIT. WE GET CONFLICTING REPORTS
AS TO HOW MANY US BANKS WOULD BE WILLING TO PARTICIPATE IN
SUCH A SYNDICATION. WE KNOW THAT MANUFACTURERS HANOVER HAS
BEEN PUSHING THE IDEA WITH THE POLES FOR AT LEAST ONE YEAR,
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AND WE UNDERSTAND THE BANK OF AMERICA SUPPORTS IT AS WELL.
CHASE AND CITIBANK, BIG PARTICIPANTS IN THE \$250 MILLION
COPPER CREDIT WHICH WAS FINALLY NEGOTIATED IN JANUARY,

SCOFF AT THE IDEA. OUR GUESS IS THAT MOST OTHER MAJOR BANKS WOULD PARTICIPATE IN A FINANCIAL CREDIT IF PRESSED BY THE POLES.

8. IN LATE MAY, COUNSELOR DUTKIEWICZ OF BANK HANDLOWY TOLD US THAT A FINANCIAL CREDIT WILL PROBABLY BE SOUGHT "IN THE LAST MONTHS OF THIS YEAR." HE SAID HANDLOWY DID NOT YET HAVE POLITICAL APPROVAL FOR THE UNDERTAKING, HOWEVER. THE LATE-FALL TIMING, AS POINTED OUT BY MORGAN GUARANTEE OFFICIALS, SEEMS RIGHT. INTEREST RATE SPREADS HAVE FALLEN TO VERY LOW MARGINS BUT ARE EXPECTED TO RISE NEXT YEAR. THE MORGAN REPRESENTATIVES SUGGESTED TO EMBASSY OFFICERS THAT POLAND SHOULD ASK TO RESCHEDULE NOW TO TAKE ADVANTAGE OF CURRENT TERMS. POLAND STILL HAS MANY LOANS FROM 1974 AT VERY SMALL MARGINS, HOWEVER. A FINANCIAL CREDIT, AS OPPOSED TO RESCHEDULING ALL DEBT, WOULD ALLOW THE GOP TO REPLACE ITS MOST EXPENSIVE SHORT TERM LOANS WITH LONGER TERM ONES.

9. THERE ARE TWO PRECONDITIONS FOR THE FINANCIAL CREDIT. POLAND MUST MAKE AVAILABLE INFORMATION ON ITS DEBT STRUCTURE AND SERVICE ACCOUNT TRANSACTIONS, AND POSSIBLY ITS RESERVE POSITION, IN ORDER TO GET AMERICAN BANKS TO PARTICIPATE. SECONDLY, A RELATIVELY HIGH INTEREST RATE SPREAD, POSSIBLY 1.5 PERCENT OVER LIBOR, WOULD BE REQUIRED. WE UNDERSTAND THAT HANDLOWY IS ALREADY HAVING ADDITIONAL FINANCIAL INFORMATION PRINTED IN ITS ANNUAL REPORT FOR 1977, AND THAT THIS IS TO BE A PRELUDE FOR MORE TO COME. THE GOP HAS ALSO RESUMED PUBLISHING TRADE STATISTICS, BROKEN DOWN BY COUNTRY, WITH A DELAY OF ONLY ONE MONTH. THE FACT THAT THE FIRST QUARTER RESULTS (WITH IMPORTS FROM THE OECD COUNTRIES DOWN BY 25 PERCENT) WERE SO FAVORABLE NO DOUBT INFLUENCED THE CONFIDENTIAL

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DECISION TO PUBLISH. WE WOULD EXPECT THE GOP TO MAINTAIN A TIGHT BUT NOT-SO-SEVERE HOLD ON IMPORTS IN THE SECOND QUARTER AS WELL. BANKERS SEEM PARTICULARLY INFLUENCED BY THE ABILITY OF THE "PLANNED" ECONOMY TO CONTROL FOREIGN TRADE, AND THE GOP WILL PROBABLY USE THESE RESULTS TO JUSTIFY ITS ELIGIBILITY FOR A FINANCIAL CREDIT.

WILL THE FINANCIAL CREDIT BE SUFFICIENT?

10. A LARGE LOAN FOR GENERAL PURPOSE FINANCING COULD OVERCOME THE APPARENT GAP BETWEEN POLAND'S REQUIREMENTS FOR FINANCING AND LOANS ALREADY COMMITTED. ACCORDING TO OUR ASSESSMENT, IF THE GOP ATTAINS THE PLANNED IMPROVEMENT ON ITS CURRENT ACCOUNT THIS YEAR, IT WILL NEED TO BORROW AT LEAST \$4 BILLION IN 1978, WITH BORROWING NEEDS FALLING POSSIBLY BELOW \$3.5 BILLION IN 1979. LOANS GUARANTEED BY WESTERN GOVERNMENTS FOR CAPITAL EQUIPMENT EXPORTS WILL BE MUCH LOWER THIS YEAR, HOWEVER, AND THE GOP'S NEED FOR

UNTIED LINES FROM PRIVATE BANKS WILL REMAIN HIGH.

11. BORROWING REQUIREMENTS FOR 1978 CANNOT BE ESTIMATED WITH PRECISION. WE BELIEVE, HOWEVER, THAT THEY FALL WITHIN THE RANGE OF \$4.0 BILLION AND \$4.5 BILLION. THESE CALCULATIONS ARE BASED ON POLAND'S NON-CEMA TRADE DEFICIT OF \$2.2 BILLION IN 1977, AND THE ASSUMPTION THAT THIS DEFICIT WILL BE REDUCED AS PLANNED TO ABOUT \$1.7 BILLION THIS YEAR. BASED ON CONVERSATIONS EMBASSY OFFICERS AND OFFICERS

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SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07

CEA-01 AGRE-00 INT-05 DOE-15 SOE-02 /113 W

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R 161053Z JUN 78

FM AMEMBASSY WARSAW

TO SECSTATE WASHDC 5681

AMEMBASSY BONN

AMEMBASSY MOSCOW

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OF THE BRITISH EMBASSY HAVE HAD WITH DEPUTY PLANNING COMMISSION CHAIRMAN OLESIK, POLAND'S SERVICE ACCOUNT APPEARS TO BE IN BALANCE, WITH GROWTH IN TRANSPORT, FOREIGN CONSTRUCTION INCOME, AND OTHER SERVICES BALANCING OUT THE RISING INTEREST PAYMENTS WHICH THE GOP MUST MAKE ON ITS FOREIGN DEBT. TOTAL BORROWING NEEDS WOULD THUS EQUAL THE MERCHANDISE DEFICIT PLUS THE ESTIMATED \$2.5 BILLION IN REPAYMENT OF PRINCIPAL ON EXISTING CREDITS, OR A TOTAL OF ABOUT \$4.2 BILLION. ALLOWING FOR SOME MARGIN OF EFFOR, NET BORROWING SHOULD BE BETWEEN \$4.0 BILLION AND \$4.5 BILLION IN 1978. IF INFORMATION WHICH WE HAVE RECEIVED FROM COUNSELOR DUTKIEWICZ AT BANK HANDLOWY IS ACCURATE, THE GOP WILL NEED FROM BETWEEN \$500 MILLION AND \$1 BILLION IN PRIVATE BANK CREDITS THIS YEAR.

TOTAL FINANCING NEEDS - \$4.0 BILLION TO \$4.5 BILLION.

FINANCED BY:

A. CAPITAL EQUIPMENT LOANS UNDER GOVERNMENT GUARANTEE - \$1.7 BILLION.

B. LOANS FOR INDUSTRIAL COMMODITIES - \$1.0 BILLION.

C. GRAIN CREDITS - \$800 MILLION.

D. OTHER CREDITS (RESIDUAL- - \$500 MILLION TO \$1 BILLION.

12. POLAND HAS ALREADY CONCLUDED TWO LOANS WITH BANKS IN
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THE MIDDLE EAST FOR OVER \$52 MILLION THIS YEAR, AND BANK
HANDLOWY IS BELIEVED TO HAVE EXISTING CREDIT LINES WITH
WESTERN BANKS TALLING OVER \$300 MILLION. THIS WOULD
SUGGEST THAT, EVEN IF NET BORROWING NEEDS ARE AS HIGH AS
\$4.5 BILLION, A FINANCIAL CREDIT OF \$700 MILLION WOULD SEE
THE POLES THROUGH 1978.

OTHER FINANCING ALTERNATIVES

13. POLAND MAY STILL BE ABLE TO MAKE ENDS MEET EVEN IF THE
FINANCIAL CREDIT FALLS THROUGH. GERMAN COMPANIES ARE
REPORTEDLY READY TO LEND FOR FUTURE DELIVERIES OF COPPER
ABOVE EXISTING AGREEMENTS, AND UPWARDS OF \$100 MILLION MIGHT
BE OBTAINED IN THIS WAY. ALTHOUGH DUTKIEWICZ TOLD US
HANDLOWY PLANS NO SIGNIFICANT COAL OR OTHER RESOURCE CREDITS,
WE KNOW THAT THE POLES TRIED LAST YEAR TO INTEREST THE FRENCH
AND BRITISH IN LOANS OF ABOUT \$700 MILLION AGAINST FUTURE
ANNUAL DELIVERIES OF COPPER. ECGD DID NOT WISH TO EXTEND A
GUARANTEE FOR SUCH A CREDIT, BUT BRITISH FIRMS REPORTEDLY
LIKED THE IDEA OF A SECURE SOURCE OF SUPPLY. THE IDEA MIGHT
RESURFACE, AND INTERESTINGLY, DUTKIEWICZ TOLD US THAT DEVELOPMENT OF
POLAND'S COPPER RESOURCES COULD JUSTIFY AN ADDITIONAL
\$1 BILLION IN CREDITS. LOCAL-COST FINANCING OF UPWARDS OF
\$100 MILLION MIGHT ALSO BE OBTAINED FOR EACH OF TWO MAJOR
PROJECTS, THE PILA SYNTHETIC FIBER PLANT AND THE COAL-STRIP
MILL AT THE KATOWICE STEELMILL.

ENERGY-RELATED CREDITS A FURTHER POSSIBILITY

14. WE HAVE ALSO HEARD THAT THE GOP HAD TALKS WITH A MAJOR
WESTERN OIL COMPANY FOR A CREDIT OF \$300 MILLION AGAINST
FUTURE DELIVERIES OF COAL. DUTKIEWICZ CONFIRMED THAT
DISCUSSIONS HAD BEEN HELD WITH SHELL, BUT HE INDICATED
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THEY WERE ON THE BACK BURNER. PRELIMINARY TALKS WITH THE
WEST GERMANS HAVE ALSO BEGUN ON EXPORTING ELECTRICITY TO
THE FRG IN RETURN FOR DEVELOPMENT CREDITS. WE WOULD NOT
EXPECT SUCH A DEAL TO MATERIALIZE THIS YEAR, BUT THE POLES
DID NEGOTIATE A SIMILAR ARRANGEMENT WITH AUSTRIA SEVERAL

YEARS AGO.

POLISH BEHAVIOR.

15. IF THE ABOVE, QUALIFIED, "CAN-COPE" PICTURE IS ACCURATE, WHY HAVE POLISH OFFICIALS ASKED THE USG TO RESCHEDULE CCC DEBT, AND WHY HAVE THEY APPROACHED THE FRENCH ON DELAYING PAYMENTS ON POLICE? TWO ANSWERS ARE POSSIBLE. FIRST, EVEN IF IT IS MANAGEABLE, THE DEBT SITUATION IS BAD, AND THE POLES CANNOT PUT ALL THEIR EGGS IN ONE OR TWO BASKETS, SUCH AS A FINANCIAL CREDIT OR RESOURCE-TIED BORROWING. SECOND, THE POLES MAY BE NAIVE ENOUGH TO BELIEVE THAT SUCH "EASING" OF CREDIT TERMS BY WESTERN GOVERNMENTS WOULD NOT DAMAGE THEIR STANDING IN THE BOARD ROOMS OF WESTERN BANKS. WE THINK BOTH EXPLANATIONS ARE PARTIALLY ACCURATE, BUT THAT NAIVETE, COUPLED WITH THE INERTIAL OF A BUREAUCRACY INSTRUCTED TO DO EVERYTHING POSSIBLE TO AVOID FORMAL RESCHEDULING, WEIGHS PARTICULARLY HEAVY.

LOWER SHORT-TERM RATES -- EVEN FOR POLAND

16. HANDLOWY'S INSISTENCE ON REDUCED INTEREST RATE SPREADS IN RECENT NEGOTIATIONS WITH US BANKERS IS A FURTHER

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 CEA-01 AGRE-00 INT-05 DOE-15 SOE-02 /113 W
 -----097480 161441Z /47

R 161053Z JUN 78
FM AMEMBASSY WARSAW
TO SECSTATE WASHDC 5682
INFO AMEMBASSY BONN
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INDICATION THAT IT IS NOT GROPING FOR FUNDS AT ANY COST.
HANDLOWY IS UNDOUBTEDLY TRYING TO TAKE ADVANTAGE OF RECENT
REDUCTIONS IN RATES CHARGED THE HUNGARIANS, SOVIETS, AND
OTHER BORROWERS. SEVERAL BANKERS HAVE TOLD US HANDLOWY

IS NOW INSISTING ON RATES OF .75 OVER LIBOR FOR TWO-YEAR CREDITS, WHEREAS IT WOULD HAVE ACCEPTED 1.12 FOR SUCH A LINE LAST YEAR. A RECENT TWO-YEAR CREDIT WITH MIDDLE EAST BANKS WAS CONCLUDED AT 1.25 ONLY TO HELP INTEREST THEST NEW BANKS IN THE MARKET, ACCORDING TO HANDLOWY.

BANKER CONFIDENCE, AND POLAND'S ABILITY TO COPE

17. WE NOTED A NEW SENSE OF CONFIDENCE IN POLAND AMONG US BANK REPRESENTATIVES AT THE MAY 2-3 CONFERENCE AT EMBASSY LONDON ON EAST EUROPEAN DEBY. VIRTUALLY ALL BANKS WERE WILLING TO CONTINUE LENDING TO POLAND IN SUPPORT OF EXPORTS, ALTHOUGH SOME INDICATED THEY STILL DID NOT LIKE THE IDEA OF UNTIED LENDING. MOST OF THE BANKERS DID NOT OFFER CONCRETE EXPLANATIONS FOR THEIR INCREASED CONFIDENCE IN POLAND, BUT SEVERAL FACTORS WEEM TO HAVE BEEN UPPERMOST IN THEIR MINDS:
A. POLAND IS PERCEIVED AS A CENTRALLY PLANNED ECONOMY IN WHITH THE GOVERNMENT CAN REDIRECT RESOURCES AND CLAMP ON CONFIDENTIAL

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CONTROLS BETTER THAN IN LDC'S. THE GOP'S SUCCESS IN CUTTING IMPORTS IS CITED IN THIS REGARD, ALTHOUGH FEW BANKERS BELIEVE THESE CUTS CAN BE SUSTAINED FOR MORE THAN A COUPLE OF YEARS.
B. THE STABILITY OF THE POLISH LEADERSHIP IS MUCH LESS QUESTIONED NOW, TWO YEARS AFTER THE JUNE 1976 PRICE RIOTS.
C. GOVERNMENT SUPPORT, BOTH FROM THE SOVIETS AND THE WEST, AND ESPECIALLY FROM THE UNITED STATES, IS PERCEIVED AS STRONG AND CONTINUING.
D. POLAND'S NATURAL RESOURCES-ESPECIALLY COAL, COPPER, SULPHUR-ARE IMPRESSIVE.
E. FEW BANKERS ARE LOOKING AT LONG-TERM CONSIDERATIONS IN MAKING THEIR CREDIT DECISIONS. THEY ARE PRIMARILY INTERESTED IN THE GOP'S ABILITY TO GET THROUGH THE NEXT TWO YEARS, AND NOT WITH THE CHANCES (VERY WEAK AS WE SEE THEM) FOR POLAND TO RUN A TRADE SURPLUS FOR LONG ENOUGH TO BEGIN REDUCING ITS WHOPPING DEBT.

GOVERNMENT SUPPORT

18. THE CHILL IN DETENTE IS AN IMPORTANT NEW FACTOR IN THE POLISH DEBT EQUATION, AND IT IS DIFFICULT TO ASSESS ITS IMPACT. WE BELIEVE IT WILL STRENGTHEN THE DESIRE OF THE FRG TO RESPOND TO POLAND'S FINANCIAL NEEDS. THE GERMANS HAVE A STRONGER GEOPOLITICAL INTEREST THAN MOST IN SEEING STABILITY IN POLAND, AND THEY ALSO HOLD THE LARGEST SHARE OF POLAND'S DEBT.

THE SOVIET CONNECTION SEEMS PARTICULARLY DIFFICULT TO JUDGE AT THIS TIME

19. POLAND RAN A GROWING TRADE DEFICIT WITH THE SOVIETS FROM THE LAST HALF OF 1976 THROUGH 1977, INDICATING THAT THE SOVIETS WERE PROVIDING MATERIALS, AND AT LEAST INDIRECTLY, CONFIDENTIAL

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FINANCIAL ASSISTANCE. INCREASED DELIVERIES OF IRON ORE AND OTHER RAW MATERIALS WERE FORTHCOMING. POLISH IMPORTS FROM THE USSR WERE DOWN 12 PERCENT IN THE FIRST QUARTER OF 1978, HOWEVER. THE POLES RAN UP A BILATERAL SURPLUS OF \$330 MILLION IN THE FIRST QUARTER, AS OPPOSED TO A DEFICIT OF \$180 MILLION IN THE SAME PERIOD OF 1977. WE CANNOT YET JUDGE WHETHER THIS IS A NEW TREND. IF IT IS, THE SOVIETS ARE SQUEEZING AT A TIME OF REAL TENSION HERE. ALTERNATIVELY, THE SOVIET MAY HAVE PROVIDED SOME DIRECT HARD-CURRENCY FINANCIAL SUPPORT TO THE POLES IN RETURN FOR DELIVERY OF QUALITY MERCHANDISE NOT MARKETABLE IN THE WEST. CONCLUSIONS:

20. ON BALANCE, WE THINK THE GOP WILL BE ABLE TO COPE WITH ITS BAD FINANCIAL SITUATION OVER THE NEXT TWO YEARS. THERE ARE PLENTY OF QUALIFIERS TO THIS ASSESSMENT SPELLED OUT ABOVE. IN PARTICULAR, THE NUMBERS GAME ON CALCULATING BORROWING NEEDS CAN BE A VERY ARTIFICIAL, AND POSSIBLY MISLEADING ONE. FRANK, HIGH-LEVEL DISCUSSIONS WITH THE MINISTRY OF FINANCE AND BANK HANDLOWY ARE NECESSARY TO SEE WHETHER THESE ASSESSMENTS ACTUALLY REFLECT REALITY.

21. TO BE SUCCESSFUL, THE POLES WILL ALSO HAVE TO TREAD MORE CAREFULLY IN THEIR REQUESTS TO WESTERN GOVERNMENTS FOR "EASING" REPAYMENT TERMS. THE LINE BETWEEN THESE ARRANGEMENTS AND DE FACTO RESCHEDULING IS BECOMING INCREASINGLY THIN AND, IF THINGS BROKE WRONG, PRIVATE BANKS COULD CONCEIVABLY REFUSE TO LEND UNTIL THE TERMS OF WHAT APPEAR TO BE RESCHEDULING BECAME CLEAR. THE FEARNESS OF BANKERS TO RUMORS OF RESCHEDULING MAY BE CONSIDERABLE, HOWEVER, AS LONG AS THEY ARE GETTING RETURNS ON NEW CREDIT TERMS WHICH WOULD BE MORE PROFITABLE THAN WOULD PREVAIL UNDER A FORMAL RENEGOTIATION.

22. TIME, OF COURSE, IS THE BIGGEST QUALIFIER IN THE ABOVE ANALYSIS. THE FINANCIAL STRETCHING OPERATION WHICH THE POLES CONFIDENTIAL

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HAVE ACCOMPLISHED OVER THE LAST YEAR MERELY MEANS THAT PAYMENTS ARE BEING INCREASINGLY DELAYED UNTIL LATE 1979, 1980, AND BEYOND. WE DO NOT BELIEVE THE POLISH ECONOMY CAN OPERATE

EFFICIENTLY ENOUGH TO SUSTAIN A TRADE SURPLUS LONG ENOUGH
TO REDUCE THE DEBT LEVEL SIGNIFICANTLY AND FULFILL THE
NECESSARY MINIMUM OF CONSUMER ASPIRATIONS. BROWN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MANAGEMENT, DEBTS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978WARSAW05111
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780252-0161
Format: TEL
From: WARSAW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780648/aaaabpmv.tel
Line Count: 497
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 131cc486-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 10
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 WARSAW 5324
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2310569
Secure: OPEN
Status: NATIVE
Subject: MANAGEMENT OF THE POLISH DEBT: PROSPECTS ARE SOMEWHAT BETTER FOR 1978/1979, BUT STILL GRIM FOR THE LONG TERM
TAGS: EFIN, PL
To: STATE
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/131cc486-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014